

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
Years ended June 30, 2010 and 2009

**ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange City Communications, L.L.P.
Orange City, Iowa

We have audited the accompanying balance sheets of Orange City Communications, L.L.P. (an Iowa partnership) as of June 30, 2010 and 2009, and the related statements of income, partners' capital and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Communications, L.L.P. as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 29, 2010, on our consideration of Orange City Communications, L.L.P.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Kiesling Associates LLP

Emmetsburg, Iowa
September 29, 2010

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

BALANCE SHEETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 161,287	\$ 259,050
Accounts receivable		
Less allowance of \$13,840 and \$11,590, respectively	330,430	144,010
Prepayments	<u>7,772</u>	<u>21,867</u>
	<u>499,489</u>	<u>424,927</u>
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	5,526,274	5,497,349
Video plant in service	38,352	38,352
Internet plant in service	<u>272,870</u>	<u>249,047</u>
	5,837,496	5,784,748
Less accumulated depreciation	<u>2,219,887</u>	<u>1,835,036</u>
	<u>3,617,609</u>	<u>3,949,712</u>
 TOTAL ASSETS	 <u><u>\$ 4,117,098</u></u>	 <u><u>\$ 4,374,639</u></u>

The accompanying notes are an integral part of these financial statements.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

BALANCE SHEETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 113,822	\$ 106,760
Accounts payable	197,681	118,727
Accrued interest	4,556	3,254
Customer deposits	350	351
Accrued taxes	<u>97,106</u>	<u>97,716</u>
	<u>413,515</u>	<u>326,808</u>
LONG-TERM DEBT, less current portion	<u>1,602,317</u>	<u>2,014,513</u>
PARTNERS' CAPITAL	<u>2,101,266</u>	<u>2,033,318</u>
 TOTAL LIABILITIES AND PARTNERS' CAPITAL	 <u>\$ 4,117,098</u>	 <u>\$ 4,374,639</u>

The accompanying notes are an integral part of these financial statements.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

STATEMENTS OF INCOME
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Local network services	\$ 702,869	\$ 603,582
Network access services	799,661	953,179
Video services	665,637	570,280
Internet services	636,445	590,993
Miscellaneous	<u>(229,970)</u>	<u>(74,719)</u>
	<u>2,574,642</u>	<u>2,643,315</u>
OPERATING EXPENSES		
Plant specific operations	474,038	540,231
Cost of video services	478,264	422,100
Cost of internet services	235,827	231,904
Depreciation	384,851	378,283
Customer operations	130,363	124,644
Corporate operations	168,428	168,627
General taxes	<u>104,424</u>	<u>49,140</u>
	<u>1,976,195</u>	<u>1,914,929</u>
OPERATING INCOME	<u>598,447</u>	<u>728,386</u>
OTHER INCOME (EXPENSES)		
Interest income	552	1,104
Interest expense	<u>(131,051)</u>	<u>(142,319)</u>
	<u>(130,499)</u>	<u>(141,215)</u>
NET INCOME	<u>\$ 467,948</u>	<u>\$ 587,171</u>

The accompanying notes are an integral part of these financial statements.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

STATEMENTS OF PARTNERS' CAPITAL
June 30, 2009 and 2008

	Contributed Capital	Accumulated Earnings	Total
Balance at June 30, 2008	\$ 1,250,000	\$ 596,147	\$ 1,846,147
Net income		587,171	587,171
Distributions	<u> </u>	<u>(400,000)</u>	<u>(400,000)</u>
Balance at June 30, 2009	1,250,000	783,318	2,033,318
Net income		467,948	467,948
Distributions	<u> </u>	<u>(400,000)</u>	<u>(400,000)</u>
Balance at June 30, 2010	<u>\$ 1,250,000</u>	<u>\$ 851,266</u>	<u>\$ 2,101,266</u>

The accompanying notes are an integral part of these financial statements.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 467,948	\$ 587,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	384,851	378,283
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(186,420)	39,288
Inventory	-	1,146
Prepayments	14,095	(13,109)
Increase (Decrease) in:		
Accounts payable	78,954	(102,344)
Accrued taxes	(610)	(48,576)
Accrued expenses	1,301	(5,213)
Net cash provided by operating activities	<u>760,119</u>	<u>836,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(52,748)</u>	<u>(111,997)</u>
Net cash used in investing activities	<u>(52,748)</u>	<u>(111,997)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(405,134)	(404,444)
Distributions to partners	<u>(400,000)</u>	<u>(400,000)</u>
Net cash used in financing activities	<u>(805,134)</u>	<u>(804,444)</u>
Net Decrease in Cash and Cash Equivalents	(97,763)	(79,795)
Cash and Cash Equivalents at Beginning of Year	<u>259,050</u>	<u>338,845</u>
Cash and Cash Equivalents at End of Year	<u>\$ 161,287</u>	<u>\$ 259,050</u>

The accompanying notes are an integral part of these financial statements.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Orange City Communications, L.L.P. (herein referred to as "the Company") is a provider of local telephone access, long distance telephone services, video services and internet services in Orange City, IA.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through September 29, 2010, the date the financial statements were available for issue.

Organization

Orange City Communications, L.L.P. was formed in accordance with Iowa Code Chapter 28E between the City of Orange City, Iowa and Long Lines, L.L.C. and pursuant to the Iowa Uniform Partnership Act. The City of Orange City and Long Lines, L.L.C. participate in the partnership as limited liability partners each with 50% interest. All profits and losses are shared in proportion to ownership interest.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

The Company provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectibility of existing specific accounts. Receivables are considered past due when the amount has been outstanding for thirty days or more.

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, and employee benefits.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment (Continued)

Renewals and betterments of units of telephone property are charged to plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of video and internet property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended June 30, 2010 and 2009.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Under provisions of the Internal Revenue Code, the partners include their respective shares of Partnership income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Company adopted new accounting guidance related to accounting for uncertainty in income taxes on July 1, 2009. In accordance with the guidance, the Company has evaluated its income tax positions. The Company has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at June 30, 2010.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

Local network service, video and internet revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The intrastate portion of access revenues are billed based upon an individual company tariff access charge structure filed with the Iowa Utilities Board (IUB). The charges developed from these tariffs are used to bill the connecting long distance provider and revenues are recognized in the period the traffic is transported based on the minutes of traffic carried. Long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

The Company recognizes taxes charged to customers on a net basis in the statements of income.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$5,536 and \$9,606 in 2010 and 2009, respectively.

Fair Value Measurements

Recent accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and expands disclosures related to fair value measurements. The guidance does not expand the use of fair value measurements in financial statements, but rather standardizes its definition and application in generally accepted accounting principles. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 - quoted market prices; Level 2 - observable inputs of quoted market prices for similar or inactive items; and Level 3 - unobservable inputs.) The Company deferred until July 1, 2009 the adoption of this guidance for all non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis. This includes goodwill, intangibles and non-financial long-lived assets that are measured at fair value in impairment testing.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with the 2010 presentation.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	<u>2010</u>	<u>2009</u>
Telephone plant in service:		
Buildings	\$ 8,839	\$ 8,839
Furniture and office equipment	37,684	26,901
Vehicles and work equipment	100,120	90,928
Switching equipment	472,976	472,976
Outside plant	4,766,657	4,763,357
Other plant and equipment	139,998	134,348
Subtotal	<u>5,526,274</u>	<u>5,497,349</u>
Video plant in service:		
Head end equipment	<u>38,352</u>	<u>38,352</u>
Internet plant in service:		
Internet equipment	<u>272,870</u>	<u>249,047</u>
 Total property, plant and equipment	 <u>\$ 5,837,496</u>	 <u>\$ 5,784,748</u>

Depreciation on depreciable property resulted in composite rates of 6.62% and 6.60% for 2010 and 2009, respectively.

NOTE 3. LONG-TERM DEBT

Long-term debt consists of:

	<u>2010</u>	<u>2009</u>
Northwestern State Bank of Orange City - 5.25%	\$ 1,716,139	\$ 1,821,273
Long Lines, L.L.C. - variable	-	300,000
Total long-term debt	<u>1,716,139</u>	<u>2,121,273</u>
Less current portion	<u>113,822</u>	<u>106,760</u>
	<u>\$ 1,602,317</u>	<u>\$ 2,014,513</u>

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2011	\$ 113,822
2012	121,423
2013	129,555
2014	138,232
2015	147,489

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3. LONG-TERM DEBT (Continued)

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Northwestern State Bank of Orange City. These mortgage notes are to be repaid in equal monthly installments covering principal and interest beginning after date of issue and expiring by 2020.

The Company's loan agreement dated June 30, 2007 with Long Lines, L.L.C. was paid in full during 2010.

Cash paid for interest, net of amounts capitalized for 2010 and 2009, totaled \$129,749 and \$146,903, respectively.

At June 30, 2010, of the funds available for long-term notes and lines of credit, all funds were advanced.

NOTE 4. LEASES

The Company is leasing various facilities and equipment on a monthly basis under an operating lease agreement. Total lease expense was \$48,000 and \$45,000 for the years ended June 30, 2010 and 2009. The entire expense for the year ended June 30, 2010 and 2009, was paid to a related party.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 5. RELATED PARTY TRANSACTIONS

The Company regularly conducts business with a variety of entities related through common ownership. The following is a summary of transactions and balances with related parties as of June 30, 2010 and 2009 and for the years then ended:

	<u>2010</u>	<u>2009</u>
Plant specific operations	\$ <u>403,214</u>	\$ <u>445,978</u>
Cost of internet services	\$ <u>235,767</u>	\$ <u>231,755</u>
Customer operations	\$ <u>94,442</u>	\$ <u>37,467</u>
Corporate operations	\$ <u>90,000</u>	\$ <u>90,000</u>
Interest expense	\$ <u>788</u>	\$ <u>25,021</u>
Property and equipment expenditures	\$ <u>15,413</u>	\$ <u>45,618</u>
Accounts payable	\$ <u>16,361</u>	\$ <u>-</u>

The Company has a maintenance agreement with Long Lines, L.L.C. The Company has agreed to pay Long Lines, L.L.C. \$7,500 per month to operate the utility plant and provide management and accounting services. The agreement specified an initial term of five years, expiring July 31, 2008, and automatically renews for twelve month periods, unless either party provides written notice at least 30 days prior to expiration.

NOTE 6. COMMITMENTS AND CONTINGENCIES

The Company has entered into a long-term agreement with Pioneer Internet (an affiliate of Long Lines, L.L.C.) for the provision of wholesale internet services. Services agreed to include access to wholesale internet service and the related transport and connectivity. The expenses for services provided under the agreement were \$231,755 and \$231,755 in 2010 and 2009, respectively. The agreement specified an initial term of sixty months, beginning in 2001, and is automatically renewable for additional twelve month periods, unless either party provides written notice at least 90 days prior to expiration.

NOTE 7. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to local service customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers.

ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7. CONCENTRATIONS OF CREDIT RISK (Continued)

The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the service area.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Orange City Communications, L.L.P.
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Communications, L.L.P. as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Orange City Communications, L.L.P.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatement due to error or fraud may occur and not be detected by management.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange City Communications, L.L.P.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management, and federal and state regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kiesling Associates LLP

Emmetsburg, Iowa
September 29, 2010

**ORANGE CITY COMMUNICATIONS, L.L.P.
ORANGE CITY, IOWA**

**SCHEDULE OF FINDINGS
Year ended June 30, 2010**

Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.